



**HQ AFOSI**



# **Semi-Annual Report on Fraud Operations**

**1 April 1997 - 30 September 1997**

## **FOREWORD**

This Semi-Annual Report on Fraud Operations is AFOSI's first effort of its kind. Its purpose is to provide a six-month summary of AFOSI's efforts in the fraud investigations arena and communicate AFOSI successes, direction and concerns to Air Force leadership. AFOSI is committed to provide the Air Force with the best investigative support in the world.

This product will be published every six months. Questions and comments are welcomed, and can be addressed to Mr James R. Imel, HQ AFOSI/XOKA, at DSN 297-8129 or Commercial (202) 767-8129.

FRANCIS X. TAYLOR  
Brigadier General, USAF  
Commander

# **TABLE OF CONTENTS**

## **CHAPTER ONE - SPECIAL EMPHASIS AREAS**

Special Emphasis Area - Fraud Investigations on Safety of Flight Conditions.....	3
Special Emphasis Area - Task Force Investigations on Fraud Issues.....	3

## **CHAPTER TWO - SELECTED CASE SUMMARIES**

Case Summaries of Selected AFOSI Investigations Receiving Action During the Period.....	5
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## **CHAPTER THREE - INITIATIVES**

Operation Mongoose.....	7
Training for Services Managers.....	7
Data Imaging System Center.....	7

## **CHAPTER FOUR - AREAS OF AFOSI CONCERN**

Impact of Outsourcing/Privatization on Base-Level Fraud .....	8
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## **APPENDICES**

- A - AFOSI Fraud Investigations - Actions Effected (FY 96-1 to FY 97-2)**
- B - AFOSI Central Systems Fraud - Return on Investment (FYs 96-97)**

## **CHAPTER ONE - SPECIAL EMPHASIS AREAS**

**INTRODUCTION** AFOSI continues to direct its efforts to those areas that have the greatest impact on the Air Force mission and its resources. The Air Force's ability to meet its mission is completely dependent on its ability to fly. Recognizing this tenet, AFOSI has increased its efforts into the investigation of fraud conditions affecting safety of flight. In addition, AFOSI has initiated a number of actions dedicated to making its fraud investigations more encompassing and at the same time more effective. In pursuance of those objectives, AFOSI has stepped up its involvement in Task Forces that address issues critical to the Air Force's mission.

### **SPECIAL EMPHASIS AREAS**

#### **Fraud Investigations on Safety of Flight Conditions**

Over the last several months, AFOSI has become more proactive in the development of criminal investigations involving defective aircraft parts. In Feb 97, a team of our major procurement investigators traveled to the Air Force Safety Center to review selected portions of Class "A" and "B" Mishap Investigation Reports. The team identified 27 incidents in which the cause or suspected cause of the mishap was a defective part. These incidents were forwarded to AFOSI field units for further evaluation and possible investigation. Our second objective under this initiative was to establish a forum for referral of aircraft incident reports to AFOSI when the aircraft incident was determined to be caused by a defective part(s). AFOSI met with the Air Force Legal Services Agency (AFLSA/JACT), the OPR for AFI 51-503 which governs Accident Investigations. JACT agreed with our efforts and advised AFOSI to submit proposed changes to their instruction. The changes requested provide distribution of reports and control of the accident wreckage.



#### **Task Force Investigations on Fraud Issues**

AFOSI actively participates in joint federal task forces targeting defective aircraft parts. In 1991, the Apollo Task Force originated in Philadelphia and consisted of AFOSI, FBI, DCIS, Department of Transportation, NCIS, and prosecutors from the United States Attorneys Office. The task force focused on the sale of bogus, counterfeit, or unapproved aircraft and weapon systems replacement parts



and resulted in more than twenty-six convictions and recovered in excess of \$4 million in fines and forfeitures. In 1996, the Apollo Task Force reorganized and redirected efforts towards flight-critical aircraft applications; Hangar Bay is the result of the redirection. Hangar Bay is the name that was given to the Joint Task Force Operation which has already resulted in eight substantive investigations, six of which have significant Air Force interest.

AFOSI is planning four other task force efforts similar to Hangar Bay, where the investigative focus is directed towards companies that are providing defective parts.

These efforts should be operational during Nov/Dec 97.

Two of these are AFOSI-initiated efforts focusing on parts and equipment that, if defective, would adversely impact the safety of flight. Our efforts are to eliminate defective and counterfeit aircraft parts from entering the Air Force inventory. Our initial focus in these efforts is on parts that



adversely affect the safety of flight. To compliment the task forces, HQ AFOSI has become a member of the Federal Joint Inter-Agency Working Group (FJIAWG) combating defective parts. The FJIAWG is a group that shares criminal intelligence information, operational resources and assistance, and focuses its efforts in removing defective parts and investigating related suppliers of the parts.

## CHAPTER TWO - CASE SUMMARIES

**INTRODUCTION** During the reporting period, AFOSI has closed a number of significant fraud investigations. The below listed cases provide a general idea of the types of cases AFOSI is involved in and its effectiveness in bringing to justice perpetrators of fraud against the Air Force. The case summaries appearing below are a very small percentage of the fraud investigations AFOSI has pursued during the period.

### SELECTED CASE SUMMARIES



**1.** Electrodyne Systems Corporation was illegally importing from Russia technology intended for use on US Government contracts. The technology pertained to high tech electronic components such as Digital Phase Shifters, Pin Diode Switches, and Tone Modulators and was used in the Guided Weapons Evaluation Facility, Radio Frequency Simulator, and the F-15 Fighter Aircraft Fire Control Radar. Electrodyne's importation of parts from Russia was in direct violation of the Buy American Act clause of their contract. **Result:** Electrodyne was fined \$1,000,000 and ordered to pay \$410,000 in restitution and investigative costs.

**2.** Alpine Industries, a supplier of repaired landing gear bushings for C-5 aircraft did not comply with specific heat treatment and surface specifications for the bearing repairs. The AFOSI investigation

disclosed 966 defective bushings were sold to the Air Force. Air Force engineers



concluded that the defective bearings could have caused landing gear parts to work loose and fall off. As result of the AFOSI investigations, the Air Force removed the parts from the inventory. **Result:** Alpine paid the government \$54,374 to settle the suit.

**3.** PCC Air Foils, Inc., a subcontractor of Pratt and Whitney, provided the Air Force low pressure turbine blades that failed to meet contract specifications. Air Force Technicians and Engineers found blades showed signs of degradation after only 25 hours of operation. AFOSI disclosed vendor inadvertently used the wrong material during manufacturing -- a problem that would have been detected if adequate quality controls had been practiced. **Result:** Pratt and Whitney reimbursed the Air Force \$475,000 for losses caused by their vendor.



**4.** KASS Management Services employees submitted false invoices to support payments for spare parts and for non-existent meals. KASS employees were directed to alter, falsify and fabricate records used for accounting and inventory to cover up losses, thefts, and improper management. **Result:** Five KASS employees were convicted and ordered to pay \$240,000 in fines and restitutions. The company was fined \$6.3 million and debarred from doing business with the federal government for three years.

## CHAPTER THREE - INITIATIVES

**INTRODUCTION** The AFOSI Fraud Investigations Program continuously strives for improvement, focusing on those actions that will increase usefulness to the Air Force mission. To effect this goal, AFOSI initiated a number of actions during the past six month period, such as those discussed below.

### INITIATIVES

#### **Operation Mongoose**

AFOSI has partnered with the Defense Department's Operation Mongoose to create fraud detection indicators in the Defense Finance and Accounting Service (DFAS) vendor pay systems. Operation Mongoose is a consortium made up of the Defense Manpower Data Center (DMDC), DFAS, and the DoD/IG that concentrates on data sharing and analysis for the purposes of detecting fraud and administrative irregularities in defense budget systems. Using information from closed investigations, Operation Mongoose will analyze data runs containing known instances of embezzlement in order to establish a pattern for use in future detection efforts.

#### **Training for Services Managers**

For the first time, AFOSI was involved in annual training for SAF/FMC. AFOSI provided training to Service's managers on AFOSI's role in the Air Force, it's fraud program, and indicators of fraud in the Services areas. AFOSI presented three fraud awareness sessions around the U.S. and was invited to be a permanent member of their training team for the out years.

#### **Data Imaging System Center**

AFOSI operates a data imaging system that scans documents converting them to text information that can be searched electronically. Based on discussions with our counterparts in and out of DoD, AFOSI is leading the way by providing agents a cost effective force-multiplying tool. Data imaging not only saves our agent manpower, but has far reaching effects for all personnel directly involved with investigations. The AFOSI system has the capacity to process over 2 million documents annually which is anticipated to free investigative time equivalent to 14 man years annually.





## CHAPTER FOUR - AREAS OF AFOSI CONCERN

**INTRODUCTION** To be effective and of service to USAF Commanders, AFOSI must have the authority and opportunity to investigate all allegations of fraud affecting the Air Force. AFOSI is concerned at the effect recent efforts that outsourcing and privatization may have on base level fraud investigations.

### AREAS OF CONCERN

#### **Impact of Outsourcing and Privatization on Base Level Fraud Investigations**

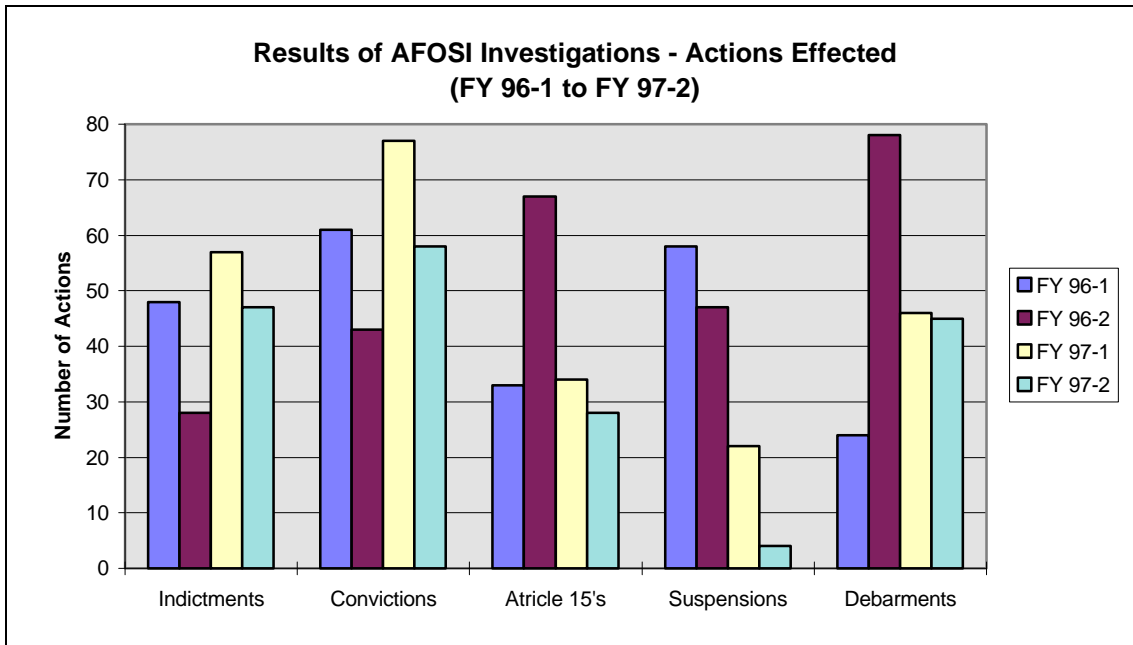
With the release of the recent Quadrennial Defense Review (QDR), increased Outsourcing and Privatization (O&P) became a reality. O&P is seen as the process to create the savings needed to modernize the Air Force of the future. The O&P goals are to: sustain readiness; improve performance, quality, efficiency, and cost effectiveness of Air Force activities; generate savings for modernization and to focus personnel and resources on core activities.

The method the Air Force has used to facilitate Outsourcing and Privatization for the last twenty years is the A-76 Cost Comparison. Since 1977, the A-76 process has conducted 787 comparisons, 20,972 personnel positions have been affected and over \$5 billion have been saved. The Air Force plans to double these statistics in the next five years. The O&P target for this time period will affect 25,396 military and 18,195 civilian positions. To do this quickly, the Air Force is implementing the “Jump Start” process, a focused effort to get the A-76 process going full steam in minimum time.

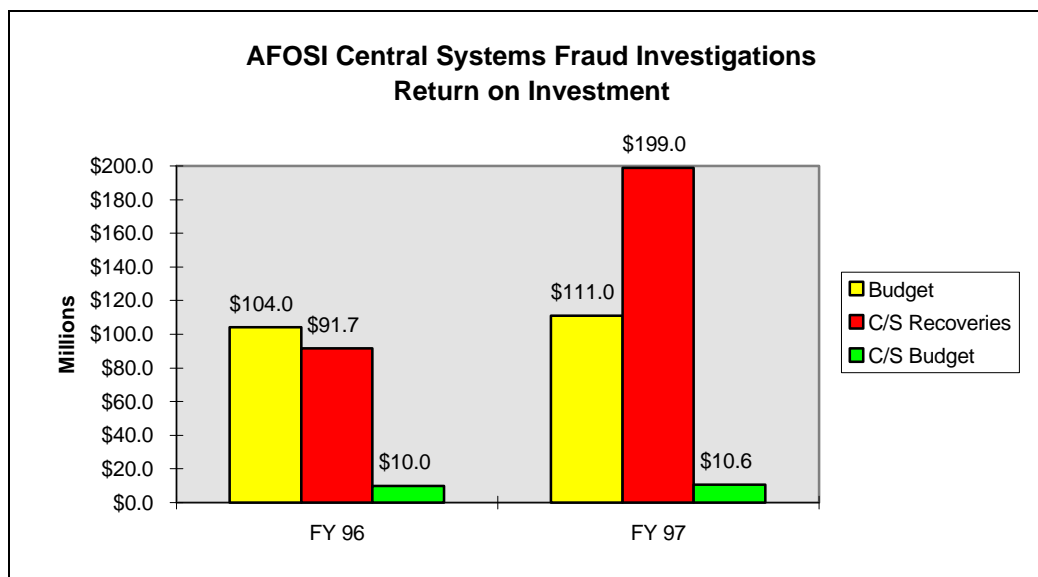


When a cost comparison is performed there are two possible outcomes. There may be a contract awarded to a private sector contractor, or the work may be retained in-house by the Air Force. Over the years, 60% of the comparisons resulted in a private sector contract and 40% remained in-house.

How will this affect Air Force fraud investigations? It's too early to tell, but there is a potential to have a significant increase in the number of Air Force contracts. A-76 cost comparisons will increase at a rapid pace as will the potential for fraud during the comparison phase. If the comparisons result in outsourcing or privatization instead of activities being retained in-house, the resulting additional contracts may increase the possibility for fraud. If present statistics remain constant and contract fraud increases at a linear rate per number of contracts, we estimate there will be a significant increase in the number of contract fraud cases.



AFOSI's fraud investigations continue to be significantly successful in obtaining punitive action. The high rate of indictments and convictions experienced follows the general trend and is proof of AFOSI's dedication and professionalism. The above results to AFOSI's fraud investigations give clear reassurance to the Air Force leadership, of AFOSI's commitment to excellence in its fraud investigations program and its dedication to preserve and protect Air Force resources.



The return on investment on AFOSI Central Systems (major weapon systems) investigations continues to increase. The above chart portrays returns on investment for the years FY 96 and FY 97. In order to get a more accurate representation, the figure for AFOSI's budget excludes moneys tagged for Counterintelligence which are moneys provided by DoD, as opposed to Air Force. In FY 96 AFOSI Central Systems (C/S) investigations returned 88% of the overall budget (excluding Anti-Terrorism and Counterintelligence money). In FY 97, AFOSI Central Systems investigations returned 179 % of the overall budget. The comparison becomes more impressive when it is limited to the budget allocated to Central Systems fraud operations alone. In that mien, AFOSI returned 917% of C/S budget in FY 96 and 1877% of C/S budget in FY 97. Average recovery per year for agents dedicated to Central Systems fraud is \$1.73 million. A very significant set of statistics!